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SOUTHWEST GAS CORPORATION RECEIVED

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August 13, 2012

AZ CORP COMMISSION
DOCKET CONTROL

Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007-2996

Re: **Docket No. G-01551A-10-0458; Decision No. 72723**

Southwest Gas Corporation (Southwest Gas) hereby submits its written comments in response to the Arizona Corporation Commission's Utilities Division Staff's Memorandum and Proposed Order regarding Southwest Gas' Gas Heat Pump Technology Reimbursement Plan, Submitted July 6, 2012.

If you have any questions, please contact me at (702) 876-7163.

Respectfully,

Debra S. Gallo by omb

Debra S. Gallo, Director
Government & State Regulatory Affairs

Enclosures

c Steve Olea, ACC
Bob Gray, ACC
Brian Bozzo, ACC Compliance
Jodi Jerich, RUCO

Arizona Corporation Commission

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1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 **COMMISSIONERS**

3 GARY PIERCE, Chairman
4 BOB STUMP
5 SANDRA D. KENNEDY
6 PAUL NEWMAN
7 BRENDA BURNS

8 In the Matter of the Application of
9 Southwest Gas Corporation for the
10 Establishment of Just and
11 Reasonable Rates and Charges
12 Designed to Realize a Reasonable
13 Rate of Return on the Fair Value of
14 the Properties of Southwest Gas
15 Corporation Devoted to its Arizona
16 Operations; Approval of Deferred
17 Accounting Orders; and for Approval
18 of an Energy Efficiency and
19 Renewable Energy Resource
20 Technology Portfolio Implementation
21 Plan.

Docket No.: G-01551A-10-0458

COMMENTS

13 **COMMENTS OF**

14 **SOUTHWEST GAS CORPORATION**

15 Southwest Gas Corporation (Southwest Gas or Company) hereby submits written
16 comments in response to the Arizona Corporation Commission's Utilities Division Staff's
17 (Staff) Memorandum and Proposed Order regarding Southwest Gas' Gas Heat Pump
18 Technology Reimbursement Plan, submitted July 6, 2012.

19 **I. Brief Background**

20 In the Settlement Agreement approved by the Commission in Decision No. 72723,
21 Southwest Gas agreed to: (1) account for all gas heat pump (GHP) technology
22 development costs funded by the Company's Arizona customers through base rates and
23 the R&D surcharge; (2) track said costs as a regulatory liability, to be returned to
24

1 customers to the extent that commercial development occurs and revenues and royalties
2 are received by Southwest Gas, and profits and royalties are received by entities affiliated
3 with Southwest Gas, including but not limited to IntelliChoice Energy, LLC; and (3) prepare
4 a plan to reimburse Arizona customers that ensures they receive credit for any investment
5 that contributed to the development of GHP technology.¹ Accordingly, Southwest Gas filed
6 its Gas Heat Pump Technology Reimbursement Plan (Plan) with the Commission on April
7 6, 2012. In its Plan, the Company proposes to reimburse Arizona customers the sum of
8 \$4,402,593² for their proportionate level of funding for the Company's GHP technology
9 development costs, subject to the noted commercial development and profitability
10 conditions.³ Southwest Gas' Plan provides that to the extent the conditions for
11 reimbursement set forth in the Settlement Agreement are satisfied, the Company will credit
12 Arizona customers \$250 for each GEDAC unit and \$200 for each AISIN unit sold by
13 Southwest Gas or any of its affiliates.

14 Southwest Gas submits that the Plan complies with Decision No. 72723 and
15 proposes a fair and reasonable methodology for reimbursing Arizona customers for their
16 investment in GHP technology development costs.

17 **II. Exceptions to Staff's Memorandum and Proposed Order**

18 In its Memorandum and Proposed Order, Staff recommends several changes to the
19 Company's proposed methodology for reimbursing customers. Southwest Gas identifies
20 two areas of concern in Staff's recommendations, which the Company discussed with Staff
21 prior to filing these comments.

22 ¹ Settlement Agreement, at Section 5.32.

23 ² The \$4,402,593 contributed by Arizona customers represents approximately 27% of the total monies
allocated to the Company's GHP technology development costs through December 31, 2011.

24 ³ The GHP costs subject to reimbursement under the Plan relate to GEDAC gas-driven air conditioning units
and, to a lesser degree, AISIN gas-powered air conditioning units. The units are collectively referred to as
"GHP units" herein.

1 First, Staff recommends that credits to customers should continue until it is clearly
2 established that the GHP units are not economically feasible, until the GHP units cease to
3 generate revenues or royalties subject to reimbursement under the Settlement Agreement,
4 or until further order of the Commission.⁴ Southwest Gas takes exception with the
5 proposal that the payment of profits and royalties continue to customers beyond the
6 established reimbursement amount. While the Settlement Agreement clearly requires the
7 Company to reimburse customers for their prior investment, subject to the noted
8 commercial development and profitability conditions, Staff's recommendation goes a step
9 further, and imposes a continuing and virtually unlimited return on the customer
10 investment, above and beyond the reimbursement itself. Indeed, Southwest' Gas'
11 proposal to credit Arizona customers \$200-\$250 per GHP unit sold undoubtedly satisfies
12 the Settlement Agreement's mandate that the Company "...ensure that customers receive
13 credit for **any investment that contributed to the development of this technology.**"
14 (Emphasis added).⁵

15 A point of concern with Staff's recommendation is that it does not take into
16 consideration the continued and on-going investment necessary to commercialize and sell
17 the GHP units. The contribution made by Arizona customers has been, and continues to
18 be, diluted by the ongoing capital contributions from other sources that are necessary in
19 order to attempt to develop a market for GHPs. For instance, Southwest Gas has
20 received, and will hopefully continue to receive, federal funding for GHP technology that is
21 not considered in Staff's analysis and the computation of the customer funding as a
22 percentage of total funding of the development of the technology. Staff's proposal also

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24 ⁴ Memorandum and Proposed Order, at 4.

⁵ Settlement Agreement, at Section 5.32.

1 stands to limit Southwest Gas' ability to use the monies received from GHP sales to satisfy
2 on-going capital needs. This, in turn, could impact the viability of GHP technology and
3 cause the entity responsible for the marketing and sale of GHP units to cease operations
4 before the reimbursement called for in the Plan occurs.

5 Southwest Gas also believes that part of the rationale for Staff's recommendation
6 may be founded upon a misunderstanding and the incorrect assertion that the Company
7 transferred assets and intellectual property related to the gas heat pump technology. This
8 is a statement to which Southwest Gas takes exception. This incorrect statement was
9 made by a Staff witness in their direct testimony as part of the general rate case and
10 Southwest Gas never had an opportunity to rebut this assertion because the parties
11 ultimately reached a settlement agreement, and Southwest Gas never filed rebuttal
12 testimony.

13 The second area of concern pertains to Staff's recommendation that if Southwest
14 Gas intends to sell or otherwise dispose of its interest in any affiliate that sells GHP units, it
15 must first obtain pre-approval from the Commission.⁶ Although Southwest Gas
16 acknowledges Staff's effort to protect customers' right to reimbursement under the Plan,
17 the Company submits that this proposal would create a chilling effect on the Company's
18 ability to entertain and secure offers for the sale of its affiliates. Given that Staff's
19 recommendation offers no parameters for pre-approval (such as a definitive window of
20 time within which Staff will prepare its report following the filing of an application by the
21 Company), potential purchasers could be deterred by the regulatory lag and perceived
22 uncertainty associated with a sale. Furthermore, any recourse on behalf of customers that
23 Staff believes is warranted can be addressed by Staff in the Company's subsequent rate

24 ⁶ Memorandum and Proposed Order, at 5.

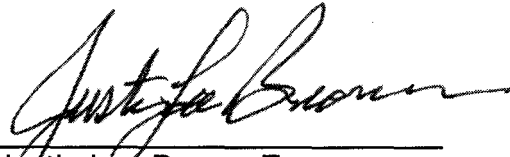
1 case proceeding following any potential sale of an affiliate – thus making the pre-approval
2 requirement unnecessary.

3 **III. Conclusion**

4 Based upon the foregoing, Southwest Gas respectfully requests that its proposed
5 Plan be approved as filed.

6 DATED this 13th day of August 2012.

7 SOUTHWEST GAS CORPORATION

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